

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - SPECIAL SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIR BOB STORY**, on July 30, 2002 at 8:30 A.M., in Room 137 Capitol.

ROLL CALL

Members Present:

Rep. Bob Story, Chair (R)
Rep. Ron Erickson, Vice Chair (D)
Rep. Joan Andersen (R)
Rep. Keith Bales (R)
Rep. Joe Balyeat (R)
Rep. Eileen J. Carney (D)
Rep. Larry Cyr (D)
Rep. Rick Dale (R)
Rep. Ronald Devlin (R)
Rep. John Esp (R)
Rep. Gary Forrester (D)
Rep. Daniel Fuchs (R)
Rep. Verdell Jackson (R)
Rep. Jesse Laslovich (D)
Rep. Trudi Schmidt (D)
Rep. Butch Waddill (R)
Rep. Karl Waitschies (R)
Rep. David E. Wanzenried (D)

Members Excused: Rep. Roger Somerville, Vice Chair (R)
Rep. Gary Branae (D)

Members Absent: None.

Staff Present: Jeff Martin, Legislative Branch
Pam Schindler, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: HJR 1, 7/23/2002
Executive Action: HJR 1, Do Pass As Amended

Chairman Story makes brief remarks regarding absent Representatives. The process this morning will be informational then have a Joint Meeting with the Senate and House regarding economists reports. Reconvene with public comment before Executive Action on HJR 1. Also informed committee members they will hear HB 11, HB124 on 8/5/02. **Rep. Story** continued informing the committee that the issue of proxys and their use or not use during this committee's session.

Rep. Erickson commented on the interim Revenue and Transportation Committees regarding proxys. The Senate has a different rule as to proxys than the house does. If a brand new issue and not heard any of the testimony; he feels strongly that we not use proxys.

Rep. Bales commented that if someone is here and has to leave for a short time but has been here for the majority of the hearing, could that person leave a proxy? **Rep. Bales** feels they should be able to leave that proxy.

Chairman Story: states that he doesn't feel this will be a big issue. **Rep. Erickson** feels it will be a setting a precedent for meetings afterwards. **Chairman Story** if no objection; people who are absent will not have Proxys and people who leave can have them.

{Tape : 1; Side : A; Approx. Time Counter : 0 - 163}

HEARING ON HJR 1

Taxation Committee reconvenes at 11:39 a.m. same day

Chairman Story calls meeting back to order.

Questions from Committee Members and Responses:

Rep. Jackson to Dr. Polzin: Please give any perspective gleaned from the drought. **Dr. Polzin** replies, short answer is no. Numbers are not in.

Rep. Erickson to Dr. Polzin: Any updates on inflation? **Dr. Polzin** replies inflation is about 1.5% or 1.4%. Will get information to **Jeff Martin**, the staffer. **Rep. Erickson** also inquires whether **Dr. Polzin** will be back in November. **Dr. Polzin** replies, yes.

Rep. Waitsches to Dr. Polzin: Farms in corporate income figures or farming incomes? **Dr. Polzin:** Farm labor income and net farm income. US Bureau of Economic Analysis provides figures also.

Rep. Waitsches to Dr. Polzin: When looking at our income tax statement and you include farm income; which would the

corporations go in farm or corporations? Revenue estimate **Dr. Polzin**, Frankly I don't know.

{Tape : 1; Side : A; Approx. Time Counter : 163 - 232}

Rep. Devlin to Dr. Polzin-growth related to next year. Do you remember your projection. **Dr. Polzin:** yes, showed 1.2% inflation rate with 1.5% inflation rate & draw up to 3% increase.

Chairman Story asks for any public comment before the break for lunch and reconvening with HJR 1.

{Tape : 1; Side : A; Approx. Time Counter : 232 - 276}

Chairman Story calls to order committee members.

Rep. Devlin introduces **HJR 1**. The number sthat are contained in **HJR 1** were generated by the LFD. **Move Do Pass-HJR 1**.

Individual Income Tax

Terry Johnson-Legislative Fiscal Division -looked at year to date collection re: income tax (individual). Withholding collections increased by 3%. Do not have the 2001 data until November, assumed withholdings would grow. wages and salaries represent 65%of tax. 2% growth factor overall.

Judy Paynter-State of Montana Department of Revenue -\$5.8M above the LFD and the Executive Branch's numbers. Explains the difference from LFD due to accounting methods. Fiscal 2002-revenue \$517M add back 1 time refund accrual of \$3.4M to create an ongoing rev. base \$521M apply 2% growth factor to come up with 2003 \$531M.

{Tape : 1; Side : A; Approx. Time Counter : 276 - 496}
{Tape : 1; Side : B; Approx. Time Counter : 0}

Next page- accrual procedure for 2001- \$62M or net difference between the accrual and change your revenue by the net difference. Since a refund accrual is like a payable; it reduces your revenue. Negative \$3.4M; had income tax of \$521M then made accounting adjustment at end of year. You owe \$3.4M back. Take out of rev. getting down to \$517.6M that is recorded in the state account system. Refunds accrued in 2002 \$52.2M. FY 2003 assumption is that refunds accrued \$52.2M making difference 0. Revenue of \$531.4M. 2003- less than \$62.2M. (**Ms. Paynter** then explains number of scenarios that she developed)Some money collected in January to June is an overpayment by taxpayers. Does

not belong to the state. Therefore the accrual at the end of June. Withholding and Accelerated Withholdings grows by 1.9% from 2002-2003. Estimated payments are decreased by 5.08% from 2002-2003.

Taxpayers then reduce their estimated payments due to their previous refunds.

{Tape : 1; Side : B; Approx. Time Counter : 11 - 182}

Rep. Balyeat to Ms. Paynter: Why does LFD come up with different number? \$3M difference. **Ms. Paynter**-that's just taking the 3.38M 2002 times by 1.02%. **Rep. Balyeat to Ms. Paynter** -the LFD does not accrue these refunds? **Ms. Paynter** -LFD did not take in account the ongoing effect of the accrual we have in 2003.

Rep. Story to Mr. Johnson -LFD: re: refunds increase next year and did not accrue and reduce the refund. **Mr. Johnson** does not subscribe to this accrual. Growth rate is a critical assumption, There are a number of different accruals.

Rep. Devlin to Mr. Johnson - Why are Dept. of Revenue's numbers different? Different Growth Rate?

Rep. Devlin that he prefers to go with the Executive Branch's number.

Rep. Devlin: Motion that HJR1 be amended line 2 page 4 insert \$531.370M estimate of individual income tax.

Discussion:

Rep. Erickson-Did we hear different presentations? How did you get those figures? **Rep. Devlin to Dr. Polzin** is more optimistic than Mr. Stack. Growth rate 2 yrs ago was 4%. Came down in 2002. Growth rate then to 1.9%. LFD and Executive Branch agreed on. 1.9% would be moderate.

Rep. Forrester to Rep. Devlin: Explain your optimism. spoke of losing his herd, etc. **Rep. Devlin**-Montana pattern differs from rest of U.S. Re: farm economy is when there is a reduction in cattle herds due to sell-offs there is an increase state revenues. He has spoken with various businessmen, accountants and there are reporting that their business was normal to increasing. Traffic was down but shoppers are more serious for large ticket items; farm machinery and automobiles. UPS only decrease but is improving to normal. **Rep. Forrester to Rep. Devlin** why come to committee with those numbers included when drafted. **Rep. Devlin**-requested with numbers from LFD. **Rep. Devlin**-Did you realize there would be this much difference? **Rep. Devlin**-Yes, he responded. It is up to the committee to change.

Rep. Bales-made statement to committee regarding non-farm income vs. corporate income. Extreme drought is only in southeastern part of state. Possibly farming aspect may do better. Livestock may not do well due to grain prices.

{Tape : 1; Side : B; Approx. Time Counter : 448 - 503}

{Tape : 2; Side : A; Approx. Time Counter : 0}

Rep. Balyeat for benefit of committee-I do not share the optimism. I'm inclined to accept the executive branch's numbers. Look at the methods to estimate income tax revenue by LFD and the executive based on 2001 income tax collections. Very down year. 2001 pretty pessimistic year, stock market dropped. Based on 2001 income tax collections, a pretty pessimistic estimate. Accrual adjustment is just a timing difference. They eventually even out. Timing without distinction. Only \$1M difference over all; timing difference, let's just accept one or the other but be consistent.

Rep. Wanzenreid to **Mr. Alme** -can carrying forward losses into the future tax years; re taxpayers? **Mr. Alme** stated yes. **Rep.**

Wanzenreid to **Mr. Alme** what effect? **Mr. Alme** that is one of the causes. **Rep. Wanzenreid** to **Mr. Alme** -can't they then carry forward losses. **Mr. Alme** -yes. **Rep. Wanzenreid** to **Mr. Alme** - idea do people "max" out. **Mr. Alme** , we don't know at this point until we get the "tape". **Rep. Wanzenreid** to **Mr. Alme** -when will you know? **Mr. Alme** -generally by the 1st of November. **Rep. Wanzenreid** to **Mr. Alme** -Refunds accrued for 2002 is that an actual number? **Mr. Alme** -yes.

Rep. Balyeat point of clarification-capital losses are deducted to the extent they offset gains to \$3,000. The carryover amount is only after you offset your capital gains. We will have a bigger problem in the next tax year than previously.

Rep. Story to **Rep. Balyeat**-probable that an accountant would reduce client's withholding accordingly. **Rep. Balyeat**-accountant would make estimated tax payments.

Rep. Erickson comments only talking about capital loss carry-overs, that's true. Stock has gone down more this year. New people will be getting in. **Rep. Wanzenreid**-we have not identified what has happened this year re: additional losses. LFD is right.

Rep. Waitsches to **Rep. Devlin**-We're talking about 2 different things. Why changing? Accrual method or the economy change? **Rep. Devlin**- asked to change because of the accrual method. DOR is more correct. DOR/LFD used same growth number.

Rep. Erickson to **Ms. Paynter** -Lots of accruals; why use this one?

Ms. Paynter -real change; did not match their estimated payments. A lot of accruals, most accrual do not make a difference at the end of the year,

Vote: Motion **AMENDMENT LINE 2 PAGE 4:CHANGE NUMBER TO \$531.370M** carried 10-8 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, Waddill, and Wanzenried voting no. Branae and Somerville absent

{Tape : 2; Side : A; Approx. Time Counter : 0 - 222}

Corporate License Tax:

Terry Johnson-Dept. of Revenue -Instead of using number the model predicts, we use the actual growth rate that the model predicts. Adjustments to the 2002 number to get a good base to apply that growth rate to. FY 200 actual collections we received. Adjustments \$7M worth of one times events /revenues collected in 2002 that we have to remove. Audit collections removed. Federal Economic Stimulus package and we remove the effects of that from the 2002 base.

Rep. Story to **Mr. Johnson** -Base rate plus Stimulus package? Mr. Johnson basically we add the Stimulus package back in.

Dan Dodds-Dept. of Revenue -explains page 4-chart use to explain how they did their corporate tax estimate. 2002-\$68.173M actual corporate tax number. \$63.095M-our number, reduction in corporate license tax. Number of adjustments made: take out audit revenue, one time events, adjusted for change in the structure of MPC. Model based on adjusted collections from corporate profits. Taken \$5M away from accelerated depreciation in new tax law. Taken \$2M for one time events for the risks of one or more co's. not coming in with a payment for the next year. Recession effects the business. Page 5-Corporate Tax/ Audit Collections; adding back in \$4.5M. 2002-collected more. Adjustments down from the forecast. Cautious forecast of \$63M.

Rep. Carney to **Johnson:** page 13-LFT bottom \$82.854? your figure? or LFD figures? **Rep. Story**-this committee came up with it. **Rep. Jackson** to **Johnson** -explain \$2M risk, are you predicting one co. might go "belly-up? **Mr. Johnson** -we are not making a specific prediction there. There is a risk that some co's. paying tax, may have lower payments or not one at all.

{Tape : 2; Side : A; Approx. Time Counter : 222 - 492}

{Tape : 2; Side : B; Approx. Time Counter : 09}

Rep. Bales to Dodds - explain the difference between forecasting models of LFD and DOR. **Mr. Dodds** -Wharton Economics using growth trend over time. National corporate profits. **Mr. Johnson** - models are basically identical. Number of factors that can change the outcome. Example: one can choose to include more historical years. Also when 2 respective offices looks at actual collections, number of events in collections and adjustments could influence the outcome.

Rep. Erickson to Johnson -DOR \$5M subtracted this number, did you? **Mr. Johnson** -yes we did. **Rep. Erickson to Johnson** -how arrived at? How close? \$5M depreciation that 9/11 caused. **Ms. Paynter** -Looked at companies who reported depreciation schedules (not require by state) took out the history of MPC. The looked at how it would work after. Sent to LFD and worked together. **Rep. Erickson to Ms. Paynter** -Federal legislation came through, it was necessary for this economic boost. Company's would be buying more equipment. I didn't hear you talk about that, why? **Ms. Paynter** -we did not put in one in there. Companies would not change. **Rep. Erickson to Ms. Paynter** -\$4.5M corporate tax audit collections assumption. How many folks are on audit vs. last yr. vs. before. **Ms. Paynter** does not know; will provide information.

EXECUTIVE ACTION ON AMENDMENT-PAGE 4 LINE 4 \$63.095M

Vote: Motion **AMEND PAGE 4 LINE 4 CHANGE NUMBER TO \$63.095M** carried 10-8 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, Waddill, and Waitschies voting no. Branae and Somerville absent

Common School Interest and Income

Terry Johnson -Revenues generated off of state lands ten deals with funding for public schools. Mr. Dodds - FY 2000 Trust Account invested by Board of Investments. Trust Fund history-not much change. Retirement Trust did not have as good a return; will fall. No change in revenue source. **Rep. Forrester to Mr. Dodds**-what about pending lawsuit with SB 495? When will be heard? Any impact? **Mr. Dodds** - do not know when will be heard. Difficult to predict. SB495 many provisions in it. Involves a loan from the coal trust to the school trust that will be repaid with the mineral royalties from state lands. **Rep. Forrester**-SB495 allows \$10M into the base. Decreases \$94.7M over 30 years out of school trust fund. If lawsuit successful, will that money have to come out of the base? **Mr. Standard**-(LFD) \$10M added to spending, \$5M went to base aide, \$5M into flex fund. Legislature would have to change base aid. **Rep. Forrester to Mr. Standard** -if in base;

budget shortfall? **Mr. Standard** -yes, another \$10M shortfall. **Rep. Story** to **Mr. Johnson** -components to this category. \$46M trust. **Mr. Johnson**-no one particular component. \$1.4M interest earnings. **Rep. Story** to **Mr. Johnson** -how much is that? **Mr. Johnson** -\$3.3-3.4M investment earnings. Royalty payments paying back \$3.4M to the general fund. **Rep. Story**-it wouldn't be all going to the schools, it would go proportionately. **Mr. Johnson** -yes, royalty payments going into the trust would cease. The trust would start to grow again.

Vote: Motion **AMENDMENT; LINE 6 PAGE 4 CHANGE NUMBER TO \$48.801M** carried 11-7 with **Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, and Wanzenried** voting no. **Branee and Somerville** absent

{Tape : 2; Side : B; Approx. Time Counter : 9 - 405}

Insurance Tax

Dan Dodds-Dept. of Revenue -Insurance premiums are set by the ins. co's. based on the risks they expect to face and their returns on their investments. Ins,. co's hold reserves to cover potential payments to their policy holders. When they earn a higher return on their reserves, they are able to hold premiums down and we collect less premium taxes. When it falls as it did last year; ins. co's raise their premiums, and we see a substantial increase on their taxes. Actual collections in 2002 increased. Fall in the National level. Projecting a slight rebound; insurance co's. are going to be earning a higher return, therefore will charge insured less premium taxes, and state will see a lower tax revenue.

Terry Johnson-LFD -collected \$47.3M in 2002. Number of companies able to hold rates down due to what was going on in equities markets. Other factor-bright spots-housing market.

{Tape : 2; Side : B; Approx. Time Counter : 405 - 512}

{Tape : 3; Side : A; Approx. Time Counter : 0}

Pretty much insurance premium taxes would grow in range of 4.5% that year. 4% growth rate then applied.

Rep. Jackson to **Mr. Johnson** -growth rate? **Mr. Johnson** -4%.

Rep. Schmidt to **Mr. Johnson** -clarification-4% is pretty accurate.

Mr. Johnson -yes.

Vote: Motion **AMENDMENT-LINE 7 PAGE 4-CHANGE NUMBER TO \$47.793M** carried 11-7 with **Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, and Wanzenried** voting no. **Branee and Somerville** absent

Estate Taxes

Kathy Duncan-LFD- Revenue was way down in 2002. We expect the same in 2003. Adjustments will be numerous. We got this number from base estimate, made adjustments and then reduced by federal estate tax. By 2002 projections; were still not coming in properly. Likely result was weakening economy, dropping capital markets. Applied to 2003 numbers.

Dan Dodds-DOR -changes to inheritance tax. Recession, general decline in asset values, inheritance tax no longer applies, only to deaths before 2000, state tax based on credit against the federal estate tax. It takes time for people to pay estate tax. Time between filing and paying. Time of death to paying tax-6 months, 7% returns filed. Declines steadily, even after 48 months. No returns filed before 3rd month after death, a few by 8 months, a peak at 9 months, another peak at 18 mos. Inheritance taxes tend to come in earlier in let months, then more Estate taxes come in. Estates valued at the time of death, will not see recession in effect now. It will effect Estate taxes in 2001 and 2002. Percentage of taxes of old law vs. new law. Federal credit being done away with over several years. 2002-57% collected. 2003-38% collected. Revised estimate of how fast Estate tax is phased-out. Slightly less loss in 2003. Changes from 2000 forecast will be spread over years. **Rep. Story** to **Mr. Dodds** -there is a \$3M adjustment from 2002 estimate was \$17M so actually we were \$4M short. **Mr. Dodds** -we did not hit the 2002 actuals. **Rep. Story** to **Mr. Dodds** -you were a little high there, are you still a little high? **Mr. Dodd** -lower than expected now when 12 months total will be high in 2003.

Discussion:

Rep. Forrester-why in the past have we always gone with the LFD are we going to go the whole way with the executive budget? **Rep. Devlin**-this is not the plan to accept whole revisions. **Rep. Erickson**-maybe **Rep. Devlin** could make all the amendments now, this has been a farce, we can get out of here early. First clue was when this committee met this week when appropriations met last week. 2nd clue as chair person on interim committee on revenue-I was told to put HJR for consideration.

Vote: Motion **AMENDMENT-LINE 15, PAGE 4 CHANGE NUMBER TO \$9.299M** carried 10-8 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, Waddill, and Wanzonried voting no. Branae and Somerville absent.

{Tape : 3; Side : A; Approx. Time Counter : 218 - 441}

Rep. Story comments about HJR 1. Did not think we had to make the decision regarding meeting. We are not going to accept all the executive numbers, then use LFD numbers after that. Next Forest Fire reimbursements

{Tape : 3; Side : A; Approx. Time Counter : 441 - 502}

{Tape : 3; Side : B; Approx. Time Counter : 0}

Fighting Wild Fires

Roger Lloyd-LFD -reimbursement for fighting wild fires that are not under the jurisdiction of state. LFD \$1.9M included in other revenue. Looked at 5 yr. history-\$7.3M yearly, we should get back \$1.9M. If take LFD numbers add in \$364K.

Chuck Swysgood-Director of Budgets -Do not appropriate money for fire costs. Could be handled through regular session. **Rep.**

Wanzenreid to **Mr. Swysgood** -no expenditures for fire? **Mr.**

Swysgood, has 2002 fires, not 2003. **Rep. Wanzenreid** to **Mr.**

Swysgood-we do not need to have revenue reflected in this resolution either? **Mr. Swysgood** -we do not calculate the cost of fires. **Rep. Wanzenreid** to **Mr. Swysgood** -should we omit the \$1.9M appropriated? **Mr. Swysgood** -we do not include money from the federal govt.

Discussion:

Rep. Waitsches, where did the \$21.558M come from? **Jeff Martin** - comparison sheets from DOR to LFD, it doesn't include the \$1.9M from the bottom. **Rep. Balyeat** to **Rep. Devlin** subtract \$1.9M from the \$21.558M? **Rep. Devlin**-DOR passed out this sheet of paper. Look under other revenue, they have a figure \$19.658M, that's the LFD number. It does not include forest fire reimbursement of \$1.9M, in revenue estimate, it does include of \$21.558M which includes that \$1.9M. If we take the office of budget and planning, of not recording the income because we're not recording the expense. **Jeff Martin** attempts to explain. **Rep. Story**-why \$300K difference? **Mr. Alme** -look on summary sheet-still left with a \$300K difference.

Rep. Story-Discussion-explains amount-backing out the \$1.9M, DOR has \$700K difference, back out the \$1.9M, still have \$700K, still have \$300K (LFD), still the \$300K- 2 subtractions and 1 addition and that's the difference

Vote: Motion **AMENDMENT-LINE 10, ALL OTHER REVENUE-CHANGE NUMBER TO \$20.358** carried 11-7 with Balyeat, Carney, Cyr, Erickson, Forrester, Schmidt, and Wanzenried voting no. Branae and Somerville absent.

{Tape : 3; Side : B; Approx. Time Counter : 0 - 185}

Institutional Reimbursement

Terry Johnson-LFD -difference of \$3.7M due to \$2.9M anticipated revenue from Montana Development Center.

Lois Steinbeck-page 1-additional revenue comes from being able to bill Medicaid when clients are no longer meets state's criteria. 2002; DPHHS not billing Medicaid for all the eligible services they could. Dept. expects 1 st payment in August of about \$700K. Supplemental Appropriation-\$3.9M general fund. Require the Executive Branch to appropriate plan mitigate projected over expenditures for an agency to live within their plans. Letter to Governor Martz that the supplemental plan and mitigation did not meet with the statutory test. LFD has projected \$3.9M to go into the General Fund.

Kurt Nichols-Budget Office -Have not included revenue from the clients from the Development Center. Nor the cost.

EXHIBIT(tah-

4b01)

If revenues do not materialize as we've only billed for part of it.

Rep. Erickson to Mr. Nichols -Budget office has the authority to receive these funds and apply those funds to offset costs in the program right now? **Mr. Nichols** -if those funds are received. **Rep.**

Wanzenreid to Mr. Nichols -Reduce expenditures? **Mr. Nichols** - reading proposed plan and there's a disagreement about that plan?

Rep. Wanzenreid to Ms. Steinbeck -status of the money? **Ms. Steinbeck** -money is deposited in the general fund. Update your revenues for this particular source.

Rep. Erickson- Ms. Steinbeck-still trying to figure out numbers given to us. Exec. number-line 16, and then line 18 in HJR-1. Why \$2.9M? **Ms. Steinbeck** -go to the front page of memo. We've already collected revenue from 2002. **Rep. Devlin to Mr. Dodds** - Forest fire reimbursements are offset; how much is reduction? **Mr. Dodds**-line 16; \$2.9M taken away you will get the \$15.706M, if you look at just what is in line 16-LFD number with the \$2.9M backed out. \$774K in other differences. **Mr. Clayton Schenk** -page 6 LFD report; figure 4 shows the differences, page 10 does not break these numbers out. **Rep. Erickson to Mr. Nichols** -\$1.4M has been billed? Will we get? **Mr. Nichols** -yes.

Rep. Story to Mr. Nichols -Statute says you cannot use it for mitigation? **Mr. Nichols** -he is here to speak revenue issues.

Rep. Schmidt to **Ms. Steinbeck** -would Ms. Steinbeck know answer?
Ms. Steinbeck -DOR has answer.

Rep. Jackson to **Ms. Steinbeck** -Was there an error made in not collecting the money prior to 2 years ago? **Ms. Steinbeck** -\$1.4M collected in 2000-2003. The additional above the \$1.4M is represents from 1996-2000. When billing for retroactive services; certain criteria must be met. Those conditions have been met and submitted.

Rep. Story to **Ms. Steinbeck** -the \$1.4M they are reviewing are from what years? **Ms. Steinbeck** -2000-2002. An additional \$1.4M from 1995-1999. **Rep. Story** to **Ms. Steinbeck** -what are the

prospects of receiving this money? **Ms. Steinbeck** -they are good if state has maintained their files and are in order. Some

claims have been rejected. **Rep. Story** to **Ms. Steinbeck** -then the \$1.4M has not been rejected? **Ms. Steinbeck** -they are being

processed and being submitted. We've already collected money from 2002. Money goes into General Fund. **Rep. Story** to **Mr.**

Nichols -you're not counting this on the expense side? **Mr.**

Nichols -no, we're not counting the supplemental appropriations nor the revenue. Part of the mitigation plan. **Rep. Story** to **Mr.**

Nichols -how does this revenue relate to that? Ending fund

balance. **Mr. Nichols**, should the revenue be received it would go into the General fund balance, ending balance.

Rep. Forrester to **Mr. Schenk** -transfer of money; who make legal determination whether that is an appropriate use of the money?

Mr. Schenk -statute for transferring supplemental request. Valid collectible to General Fund.

Rep. Story to **Mr. Johnson** -\$1.4M, concerned about the state producing the old records from 1996-1999. If we disregard that money and with the other differences, what is the number? **Mr.**

Johnson -; if \$1.4M is questionable from the back years, figure 6 line 17 would be the number. **Rep. Story** to **Mr. Johnson** -you

still have a difference of \$700K. **Mr. Johnson** -yes, underlying base estimate. **Rep. Story** to **Mr. Johnson** -why are your numbers

different? Where's that \$700K? **Mr. Johnson** -changes in institution populations, moving clients from various institutions to meet population increases and decrease.

Rep. Forrester-\$1.4M-when I sat on the Legislative Finance Committee; they said they could collect this amount. DOR stated this. **Rep. Story** is saying maybe, not DOR.

Vote: Motion **AMENDMENT: LINE 18, CHANGE NUMBER TO \$16.332M**
carried 11-7 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, and Wanzenried voting no. Branae and Somerville absent.

Oil and Gas

Jim Shundert-LFD-page 8 difference \$1.23M. Very complicated tax. Basic difference is estimates in oil prices. \$1 difference. Executive prices being \$20., LFD being almost \$19, translates to about \$1.M differences. West Texas Oil price per barrel-\$27.00, Montana price \$23.50, difference \$3.50 barrel. Expects to go down-quite severely. Due to cheating in production. Dan Dodds-DOR- like to end the day on a note of optimism. Volatile industry. Oil-long time downward trend, peaked in 1950 in Montana. 2003-2.6% reduction in production. Natural Gas-2003-slow growth, with 2000 and 2001 increases. NWPPC-power plants built, to be built etc. Source for plants-natural gas. 83% construction. Oil and gas taxes-cautious.

EXHIBIT(tah-4b02)

EXHIBIT(tah-4b03)

Vote: Motion **AMENDMENT-LINE 16-CHANGE NUMBER TO \$13.819M** carried 10-8 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, Waddill, and Wanzenried voting no. Branae and Somerville absent.

{Tape : 4; Side : A; Approx. Time Counter : 0 - 417}

Rep. Story-inquires regarding any other revenue requests. None

Rep. Wanzenreid requests that the number of the ending fund balance recently compiled be included in HJR-1. Line 6, page 1- the number there is from the June 30, 2000. Proposal is to insert the new number \$84,105.211.00M. **Mr. Johnson** -LFD-In terms of the ending fund balance information, normal process is to report the most recent number from the fiscal year. Official ending fund balance. The unaudited number from 2002.

{Tape : 4; Side : A; Approx. Time Counter : 417 - 514}

{Tape : 4; Side : B; Approx. Time Counter : 0}

They would be able to prepare a general fund status sheet-\$84,105,211M. **Rep. Story**- how does that relate to all the "whereas" on the let page. **Mr. Johnson** -included in the "whereas" is actual number that you would use during the process. **Rep. Story**-we already have numbers in there, by putting this in there, would it change those numbers. Mr. Johnson -no. **Jeff Martin**, staffer-suggests an "open" amendment, whether in the "whereas" or "resolve" section. **Rep. Balyeat** to **Mr. Johnson** -we do not have the number yet, that is why it is not in there.

Unaudited number may set us up? Can the number change during course of audit. **Mr. Johnson** -definitely yes. **Rep. Balyeat** to **Mr. Johnson** -by end of the session, don't we have a pretty solid number? **Mr. Johnson** -regardless of whether you put in this number, there is an assumption of what we ended 2002 with. **Rep. Wanzenreid**-where would the amendment would go? **Mr. Martin** -in the past the reference to the ending fund balance is contained in the "resolve" part of the resolution. **Rep. Wanzenreid**- yes I would like the number inserted. **Kurt Nichols** -Budget Office-we haven't even seen this number yet. It would be helpful to see this number first. We haven't even received a number yet. We will have the number by the end of August. **Rep. Balyeat** in previous years we have put in a number and had to revise it, is there any harm in inserting the number? **Mr. Nichols**, usually we have the number by August. **Rep. Wanzenreid**-\$6-7M difference, not getting any closer. This number needs to be in. **Rep. Story**-how much can the number move? **Mr. Johnson** -last session, it moved in the positive direction of \$5M. **Rep. Story** to **Mr. Nichols** -what adjustments have been made? Have they been substantial? **Mr. Nichols**, occasionally there have been adjusts made at the end of the calendar year. Books have remained open. **Rep. Story** to **Mr. Nichols** -\$84M when done in August or September, if other number effects the balance, would get a number to us before the session ends? **Mr. Nichols**, we do have a number resolved, but it is audited number from 2001. When we do have all the revenue and expenditures , we can have a number, pretty sound base. **Rep. Balyeat** to **Rep. Story**-what are the options, if any? **Rep. Story**-there are several, best option-let them finish the numbers so both LFD and Budget Office are comfortable with number. **Rep. Wanzenreid**-state government spend millions of dollars on computer systems, so number should be good.

Vote: Motion **AMENDMENT-ADD NUMBER OF \$84,105.211M TO TITLE OF HJR-1** failed 9-9 with Andersen, Bales, Balyeat, Dale, Devlin, Esp, Jackson, Story, and Waitschies voting nay. Branae and Somerville absent.

Rep. Wanzenreid requests **Rep. Waitsches** vote not be counted on number insert amendment. **Rep. Story** as chairman rules **Rep. Waitsches** vote be counted on amendment. **Rep. Wanzenreid** disagrees, appeals **Rep. Story** as chairman

Vote: Motion **TO APPEAL CHAIRMAN STORY'S RULING REGARDING REP. WAITSCHES VOTE COUNTING** failed 8-9 with Andersen, Bales, Balyeat, Dale, Devlin, Esp, Fuchs, Jackson, and Story voting nay. Branae and Somerville absent.

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Rep. Story-moved ending fund balance be included in resolution.
Rep. Jackson-would we have next week? **Rep. Story**-hopefully by next week. Both LFD and Budget Office work on numbers.

Vote: Motion AMENDMENT TO ADD ENDING BAL. IN WITH NUMBER FROM 2001 ADDING REV. AND SUBTRACT. EXP. carried 10-7 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, and Wanzenried voting no. Branae, Somerville and Waitsches absent.

Vote: Motion TO ACCEPT LFD'S NUMBERS FOR REMAINING REVENUE SOURCES carried 18-0.
Branae and Somerville absent. Voice Vote

Vote: Motion DO PASS HJR-1 AS AMENDED carried 10-8 with Carney, Cyr, Erickson, Forrester, Laslovich, Schmidt, Waddill, and Wanzenried voting no. Branae and Somerville absent.

{Tape : 4; Side : B; Approx. Time Counter : 284 - 316}

Rep. Story takes care of some housekeeping by informing committee we will hear HB124,HB11,HB17. Also to submit claim forms.

{Tape : 4; Side : B; Approx. Time Counter : 316 - 423}

ADJOURNMENT

Adjournment: 4:44 P.M.

REP. BOB STORY, Chair

PAM SCHINDLER, Secretary

BS/PS

EXHIBIT(tah-4bad)